

Economic Overview

Northern California's economy remains on a solid footing, and job growth has continued in most sectors of the economy in the Bay Area. Oakland, San Francisco, and San Jose each added around 5,000 net new jobs in February, signaling broad-based payroll expansion. Meanwhile, the labor market continues to tighten. The unemployment rate has dropped by about one percentage point from a year ago. Over the past 12 months, Oakland has added a sizzling 2.3 percent to total employment, San Francisco a respectable 1.3 percent, and San Jose an encouraging 0.9 percent. Even so, manufacturing job creation remains sparse at best with mergers, consolidation, and global competitive pressures continuing to hold down manufacturing payrolls in the Bay Area, especially in computers and electronic manufacturing. Telecommunication and publishing also remain soft spots as consolidation continues to reign. Looking forward, the impending slowdown in the California housing market puts payroll growth more at risk in the Oakland MD and San Jose MSA than it does in San Francisco MD. Construction payrolls have risen by 12.8 percent over the past year in Oakland, comprising about 38 percent of the net jobs created over the past twelve months. In San Jose, construction has comprised about 29 percent of net job creation, while in San Francisco construction has been less of a factor adding only 14.5 percent of the net jobs over the past year.

	Northern California*							
	2000	2001	2002	2003	2004	2005e	2006f	2007f
Employment (ths.)	4,327	4,314	4,144	4,059	4,054	4,104	4,170	4,228
Employment growth, % chg.	4.3	(0.3)	(3.9)	(2.0)	(0.1)	1.2	1.6	1.4
Unemployment rate, %	3.6	4.6	6.4	6.6	5.7	4.9	4.6	4.6
Personal Income growth, % chg.	16.4	(1.0)	(2.6)	1.5	5.4	5.0	5.0	5.2
Population (ths.)	8,668	8,788	8,824	8,875	8,926	9,006	9,090	9,166
Population growth, % chg.	1.4	1.4	0.4	0.6	0.6	0.9	0.9	0.8
Net migration (ths.)	64.6	59.6	-24.6	-12.1	-11.9	16.5	17.3	7.9
Median existing home prices, Ths. \$'s	381.7	403.6	434.9	467.0	542.3	625.0	667.3	664.0
(Percent change in home prices)	25.0	5.8	7.7	7.4	16.1	15.3	6.8	(0.5)
Housing Starts, # of units	41,652	39,526	42,752	47,581	44,434	42,920	50,863	54,991
Single-family, # of units	29,956	27,732	31,946	34,558	33,857	31,589	37,004	38,784
Multi-family, # of units	11,697	11,794	10,805	13,022	10,578	11,331	13,860	16,207

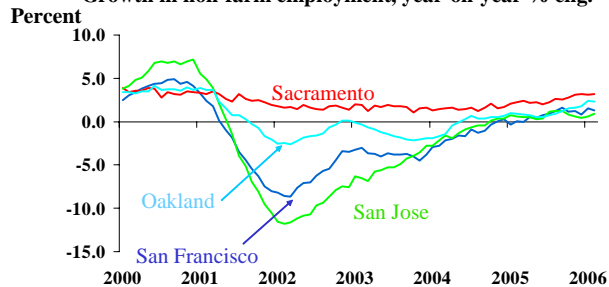
*Northern CA Defined as Oakland MD, Sacramento MSA, San Francisco MD, San Jose MSA, Napa MSA, Santa Rosa MSA, Vallejo-Fairfield MSA
 Sources: BLS, BEA, Census Bureau, National Association of Realtors, Economy.com, and Wells Fargo Economics

Sacramento Back in the Saddle Again

While the Bay Area is finally pulling its economic weight, the Sacramento MSA is currently rivaling Riverside-San Bernardino for the top billing on the California job growth charts. The metro area's economic resilience continues to impress while other parts of the Central Valley will begin to show visible signs of struggle ahead as the housing and real estate speculation of the last five years begins to unwind. Sacramento also has some exposure to the housing slowdown, but not nearly as much as parts of the Bay Area and other Central Valley metros. Business and professional services, leisure and hospitality, government, and trade, transportation, and utilities all beat out Sacramento construction in net job creation over the past twelve months. But Sacramento's real trump card has been its services growth. Private services producers like architecture, engineering, and employment services have been adding to Sacramento payrolls at four times the national pace, and twice the pace of the Western region of the United States. Moreover, robust corporate profits tax revenues have helped bolster government payrolls in Sacramento by 2.0 percentage points over the past year. Both of these trends will help cushion the expected slowdown in consumer spending and the housing market.

Northern California Joins Rest of State

Growth in non-farm employment, year-on-year % chg.

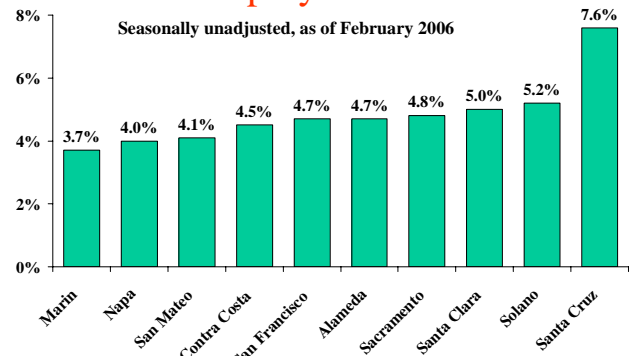


Source: Bureau of Labor Statistics

The San Francisco MD and San Jose MSA have been growing jobs on a year-on-year basis now for more than a year, joining the rest of the state. Broad-based job growth improves the stability of the Northern CA expansion.

Unemployment Rates

Seasonally unadjusted, as of February 2006

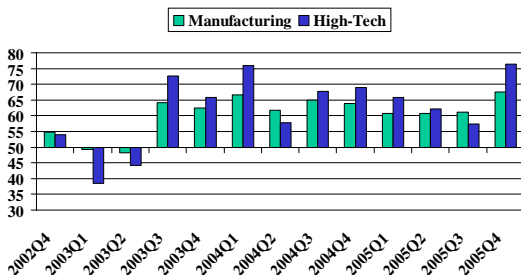


Source: California EDD

The Bay Area labor market is looking decidedly tight. Not only has slack all-but disappeared, but there is a risk that labor shortages could soon become more common place even in Santa Clara Co.

California Manufacturing Index

Diffusion Index (50+ Indicates Expansion)

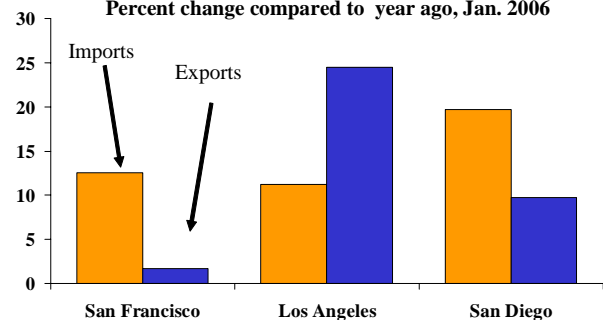


Source: A. Gary Anderson Center of Economic Research, Chapman University

California high-tech manufacturing ended the year on a high note, according to a California manufacturing survey. Expansion rivaled 2003 levels with new orders leading the way and employment firming as well.

Value of Trade by Custom District

Percent change compared to year ago, Jan. 2006

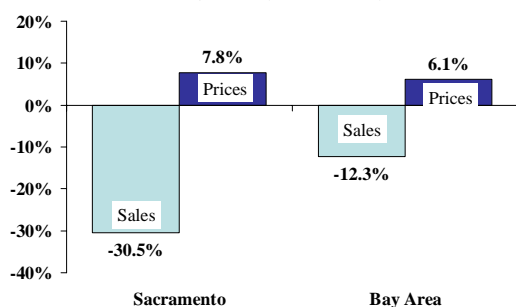


Source: Bureau of Census

International trade got off to a strong start in January. Two-way trade was up by double digits yet again. We expect robust foreign demand and a weaker dollar to help spur even stronger California export growth this year.

Northern California Housing

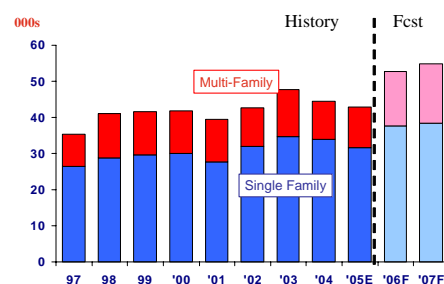
Percent Change February 2005 – February 2006



Source: California Association of Realtors

While home prices remain moderately higher than a year ago, unit sales have clearly dropped as a result of rising mortgage rates and poor affordability.

Northern California Housing Starts



Source: Census Bureau, Wells Fargo Economics

Homebuilding is likely to remain robust as the Bay Area's expansion leads to better job growth. Better job growth means more household formation and housing demand.